

Message Text

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ACTION EUR-25

INFO OCT-01 AF-10 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 FEA-02 DRC-01 /124 W

----- 028865

P R 300946Z MAR 74

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 9345

INFO AMCONSUL LOURENCO MARQUES

AMCONSUL LUANDA

S E C R E T SECTION 1 OF 2 LISBON 1214

EO 11652: GDS

TAGS: PINT, PINS, PFOR, PO, ECON, EFIN

SUBJECT: PORTUGAL: POLITICAL/ECONOMIC TRENDS, FIRST QUARTER 1974

REF: LISBON 4739

SUMMARY: A CHALLENGE TO GOP OVERSEAS POLICY FROM WITHIN THE ESTABLISHMENT HAS SHAKEN PORTUGAL OUT OF ITS ACCUSTOMED POLITICAL STABILITY. OPPOSED TO ANY LIBERALIZATION OVERSEAS, THE FAR RIGHT HAS MOVED INTO A POSITION OF TEMPORARY DOMINANCE, BUT IS CIRCUMSCRIBED BY UNREST IN THE MILITARY, WHERE CHANGE IN OVERSEAS POLICY FINDS CONSIDERABLE SUPPORT. WE EXPECT THE DEBATE NOW OPENED WILL EVENTUALLY LEAD TO GREATER LIBERALIZATION, BUT MEANWHILE WE WILL PROBABLY HAVE TO NEGOTIATE WITH A REGIME DISPOSED TO HARD BARGAINING BUT WITH REDUCED INTERNATIONAL ACCEPTABILITY. INFLATION REMAINS THE MAJOR PROBLEM FOR THE ECONOMY, WHICH WOULD BE FURTHER STRAINED SHOULD A SUBSTANTIAL RETURN OF EMIGRANT WORKERS TAKE PLACE. THE ARAB OIL BOYCOTT HAS PROVED A PAPER TIGER FOR PORTUGAL, WHICH IS PROCEEDING WITH A NEW DEVELOPMENT PLAN DESIGNED TO IMPROVE PORTUGAL'S COMMERCIAL COMPETITIVENESS. END SUMMARY

A. POLITICAL

1. THE PREDICTION IN OUR LAST QUARTERLY TRENDS REPORT THAT "SERIOUS
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DOMESTIC POLITICAL INSTABILITY IS UNLIKELY IN THE COMING MONTHS"

REMAINED VALID UNTIL FEBRUARY 22, THE DATE OF PUBLICATION OF THE BOOK "PORTUGAL AND THE FUTURE" BY GENERAL SPINOLA. THE CHAIN OF EVENTS THAT FOLLOWED HAS SHAKEN PORTUGUESE POLITICAL LIFE OUT OF ITS PREVIOUS APPARENTLY IMMUTABLE STABILITY.

2. AT THE MOMENT, THE FAR RIGHT IS IN THE ASCENDANCY, HAVING ENGINEERED THE DISMISSAL OF GENERAL SPINOLA AND OF HIS IMMEDIATE SUPERIOR GENERAL COSTA GOMES (WHO ENDORSED HIS VIEWS) AND REPLACEMENT OF THE LATTER BY RIGHTIST GENERAL LUZ CUNHA. RUMORS AROUND THAT THE RIGHT IS ATTEMPTING TO PUSH ITS ADVANTAGE FURTHER BY SECURING THE REPLACEMENT BY RIGHTISTS OF SEVERAL OFFICIALS OF SUSPECT ORTHODOXY, NOT EXCLUDING PRIME MINISTER CAETANO. CAETANO REMAINS IN OFFICE, BUT HIS ROOM FOR MANEUVER SUBSTANTIALLY REDUCED.

3. MEANWHILE, HOWEVER, THE ROOM FOR MANEUVER OF THE FAR RIGHT IS ALSO CIRCUMSCRIBED BY UNREST WITHIN MILITARY CIRCLES, WHERE SPINOLA ENJOYS WIDE POPULARITY AND COSTA GOMES RESPECT AND ADMIRATION. PARTICULARLY AMONG JUNIOR OFFICERS, SPINOLA'S PROPOSALS WERE SEEN TO HOLD OUT PROMISE FOR AN EVENTUAL END TO THE WAR WHICH HAS SUBJECTED THEM TO REPEATED REASSIGNMENT TO AFRICAN WAR ZONES ON VERY LOW PAY. ENDORSEMENT OF SPINOLA'S IDEAS BY COSTA GOMES ENHANCED THEIR RESPECTABILITY AMONG OLDER OFFICERS SOMEWHAT DISTRUSTFUL OF SPINOLA FOR HIS FLAMBOYANCE AND AMBITION. THE ABORTIVE MUTINY OF THE CALDAS DA RAINHA INFANTRY REGIMENT WAS THE MOST VISIBLE EXPRESSION OF THIS UNREST BUT NOT THE ONLY ONE. THE ARRESTS AND RUSTICATIONS THAT PRECEDED AND, IN MUCH GREATER NUMBERS, FOLLOWED THE MUTINY MAY WELL HAVE DECAPITATED THE INSURRECTIONIST MOVEMENT WITHIN METROPOLITAN PORTUGAL FOR THE MOMENT. HOWEVER, THE SCALE OF THE ARRESTS AND THE FACT THAT AT LEAST SOME OF THEM WERE CARRIED OUT NOT BY MILITARY POLICE BUT BY THE HATED DGS HAS WIDENED SYMPATHY FOR THE "OFFICERS' MOVEMENT" AS IT IS NOW CALLING ITSELF IN CLANDESTINELY CIRCULATED MANIFESTOS. FURTHERMORE, EVIDENCE IS ACCUMULATING THAT THE MOVEMENT IS GAINING ADHERENTS AMONG THE MILITARY IN THE OVERSEAS TERRITORIES.

4. THE CURRENTLY-DOMINANT RIGHT-WINGERS HAVE BEEN ABLE SO FAR TO COUNT ON MILITARY DISCIPLINE, AND ON THE POLITICAL APATHY ENFORCED IN PORTUGAL FOR OVER FOUR DECADES, TO CARRY OUT THEIR WILL. HOWEVER, THE FACT THAT THEY HAVE SO FAR REFRAINED FROM PUSHING THEIR ADVANTAGE FURTHER SUGGESTS THAT THEY HAVE RECOGNIZED THAT ANY

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FURTHER STEP IN THAT DIRECTION MIGHT SPARK A MILITARY REVOLT WHICH NEXT TIME WOULD BE LIKELY TO BE MUCH BETTER PLANNED AND EXECUTED THAN THE IMPULSIVE CALDAS MUTINY. THE ODDS SEEM TO BE THAT THE RIGHT WILL REFRAIN FROM STEPS WHICH WOULD RISK SUCH A REVOLT. WE WISH TO EMPHASIZE, HOWEVER, THAT THE PRESENT PORTUGUESE POLITICAL SCENE IS STREWN WITH TINDER AND THAT SOURCES OF POSSIBLE SPARKS ARE EVER-PRESENT.

5. BARRING AN EXPLOSION, WE EXPECT THAT CAETANO WILL GRADUALLY EMERGE FROM HIS PRESENT WEAKENED POSITION. HIS REAL INTENTIONS FOR PORTUGAL'S FUTURE REMAIN WRAPPED IN STUDIED AMBIGUITY. HOWEVER, THE SPINOLA BOOK HAS IRREVOCABLY OPENED THE DEBATE ON OVERSEAS POLICY, DISCREDITED MANY OF THE MYTHS OF THE PAST, AND IS ALREADY GENERATING PRESSURES FOR CHANGE FROM THE IMMOBILITY OF THE PAST. WE ESTIMATE THAT THE PRESENT RIGHTIST DOMINANCE WILL BE A TEMPORARY PHENOMENON, AND THAT THE PRESSURES GENERATED BY THE SPINOLA-OPENED DEBATE WILL OVER THE LONGER TERM PROVIDE CAETANO WITH THE FLEXIBILITY TO MOVE TOWARD A MORE LIBERAL OVERSEAS POLICY IF THAT IS INDEED HIS WISH OR, IF NOT, WILL FORCE HIM IN THAT DIRECTION. WE FEEL, HOWEVER, THAT HE WILL IN ANY CASE INSIST ON RETAINING SUFFICIENT PORTUGUESE CONTROL OVER ANGOLA AND MOZAMBIQUE TO ENSURE THAT THE WHITE POPULATIONS OF THOSE TERRITORIES ARE ABLE TO REMAIN THERE. HOWEVER, THROUGH THE PERIOD OF NEGOTIATIONS ON THE AZORES, THE FAR RIGHT IS THE ELEMENT THE US WILL PROBABLY HAVE TO RECKON WITH. THEIR PREOCCUPATION WILL BE WITH DOMESTIC AFFAIRS. HOWEVER, TO THE EXTENT THAT THEY FOCUS ON THE NEGOTIATIONS, THEY WILL REPRESENT AN ELEMENT RELATIVELY INSENSITIVE TO OUTSIDE PRESSURES AND TOUGH TO BARGAIN WITH OVER THE PRICE OF LAJES. SINCE THE WORLD WILL LOOK UPON THE PRESENT PORTUGUESE POLITICAL SCENE AS A REVERSION TO SALAZARISM, WE WILL FIND RELATIVELY LESS INTERNATIONAL AND DOMESTIC TOLERANCE FOR A COMPENSATION PACKAGE WHICH WILL BE VIEWED AS SUPPORT FOR THAT REGIME.

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INFO OCT-01 AF-10 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 FEA-02 DRC-01 /124 W

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P R 300946Z MAR 74

FM AMEMBASSY LISBON

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INFO AMCONSUL LOURENCO MARQUES

AMCONSUL LUANDA

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B. ECONOMIC

1. PERSISTENT INFLATION--AROUND 13 PERCENT IN 1973--HAS BEEN AND WILL CONTINUE TO BE PORTUGAL'S FOREMOST ECONOMIC CONCERN. IT UNSETTLES THE COUNTRY DOMESTICALLY AND DIMINISHES HOPES OF PREVENTING AN ALREADY BAD TRADE IMBALANCE FROM WORSENING--TO SAY NOTHING OF DIMMING PROSPECTS FOR GREATER PENETRATION OF THE COMMON MARKET VIA THE PORTUGAL-EEC FREE TRADE AREA AGREEMENT. RECENT MOVES TO COPE WITH INFLATION INCLUDE BUILDING FLEXIBILITY INTO THE 1974 BUDGET TO TEMPER INFLATIONARY FORCES AND RESTRUCTURING AND RESTAFFING THE ECONOMIC MINISTRIES IN A WAY THAT STRESSES FINANCIAL CONSERVATISM MORE THAN INNOVATIVE DEVELOPMENT.

2. WHILE EUROPEAN ECONOMIC JITTERS, TRIGGERED BY THE ENERGY CRISIS, HAVE THUS FAR NOT RESULTED IN EXPULSION OF PORTUGUESE "GUEST WORKERS", THE GOP CONTINUES TO BE SKITTISH IN THIS RESPECT INASMUCH AS EMIGRANTS PROVIDE THE EXCHANGE, IN THE FORM OF REMITTANCES, THAT BY ITSELF COMPENSATES FOR PORTUGAL'S TRADE DEFICIT. FURTHERMORE, A MASS RETURN OF EMIGRANTS WOULD SET THE STAGE FOR MAJOR ECONOMIC AND SOCIAL UNREST IN AN ECONOMY UNPREPARED TO RECEIVE THEM.

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3. THE CONTINUING ARAB EMBARGO ON PETROLEUM EXPORTS TO PORTUGAL HAS TO ALL APPEARANCES DONE LITTLE MORE THAN DISCOMFRT CONSUMERS--INDUSTRY AND THE GENERAL PUBLIC--WITH HIGHER PRICES. THE SUPPLY SITUATION HAS NOT BECOME CRITICAL NOR IS IT LIKELY TO AS THE INTERNATIONAL SITUATION NOW STANDS. CHANCES THAT THE GOP MIGHT APPEAL TO THE U.S. FOR PETROLEUM SUPPLIES ARE MORE REMOTE NOW THAN DURING THE LAST QUARTER OF 1973. HOW MUCH PORTUGAL'S PETROLEUM IMPORT BILL HAS INCREASED IS CLOSELY HELD INFORMATION, BUT WE UNDERSTAND THAT GULF, WITH PETROLEUM CONCESSIONS IN ANGOLA, HAS KEPT PRICES BELOW CURRENT INTERNATIONAL MARKET LEVELS IN ORDER TO PRESERVE PORTUGUESE GOOD WILL.

4. IN ITS NEW SIX-YEAR DEVELOPMENT PROGRAM (1974-79) THE GOP HAS OPTED FOR A POLICY OF PROMOTING COMMERCIAL COMPETITIVENESS AT HOME AND ABROAD VIA CAPITAL-INTENSIVE RATHER THAN LABOR-INTENSIVE INDUSTRY. THE GOP'S RATIONALE IS THAT LABOR-INTENSIVE INDUSTRY WOULD PROVIDE NEITHER THE HIGH SALARIES NEEDED TO KEEP PORTUGUESE LABOR AT

HOME NOR THE KIND OF PRODUCTS THAT CAN COMPETE IN PORTUGAL'S
PRINCIPAL EXPORT MARKETS.

5. IN THE FORESEABLE FUTURE PORTUGUESE-AMERICAN
RELATIONS ARE UNLIKELY TO BE SEVERELY TESTED BY ANY
ECONOMIC PROBLEMS. PORTUGAL, LIKE OTHER COUNTRIES
WHICH FIND THAT RISING PETROLEUM PRICES HAVE INFLATED
THEIR IMPORT BILLS, MAY IRRITATE CERTAIN U.S. DOMESTIC
INTERESTS IF IT SEEKS TO PAY FOR HIGHER IMPORT COSTS
WITH INCREASED EXPORTS TO THE UNITED STATES. PRESENT
POSSIBILITIES FOR DOING DO, HOWEVER, ARE LIMITED.
TEXTILE EXPORTS AND CERTAIN KINDS OF AMERICAN INVESTMENT
IN PORTUGAL COULD ALSO BE IRRITANTS. THE GOP HAS SHOWN
LITTLE INTEREST IN BECOMING PARTY TO THE INTERNATIONAL
TEXTILE ARRANGEMENT THAT INCLUDES MAN-MADES AS WELL AS
COTTON, AND IT IS INCREASINGLY MAKING CLEAR THAT ONLY
THOSE FOREIGN INVESTMENTS BRINGING IN NEW TECHNOLOGY
OR NEW AND SUBSTANTIAL CAPITAL WILL BE WELCOME. ON
THE OTHER HAND U.S. INVESTORS AND EXPORTERS MAY IN TIME
BE ABLE TO BENEFIT FROM A NEW INDUSTRIAL DEVELOPMENT
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LAW NOW BEING FLESHED OUT AND FROM ECONOMIC EXPANSION
ENVISAGED IN THE NEW SIX-YEAR DEVELOPMENT PROGRAM WHICH
CAME INTO EFFECT IN JANUARY OF THIS YEAR.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC TRENDS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 30 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LISBON01214
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740070-1061
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974031/aaaaape.tel
Line Count: 253
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: LISBON 4739
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 30 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 MAY 2002 by elyme>; APPROVED <04 FEB 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PORTUGAL: POLITICAL/ECONOMIC TRENDS, FIRST QUARTER 1974
TAGS: PINT, PINS, PFOR, ECON, EFIN, PO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005